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## Legal Updates & News

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#### OFAC Strengthens Iranian Embargo by Revoking Authorization of “U-turn” Transactions

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On November 10, 2008, the Office of Foreign Assets Control (“OFAC”) of the U.S. Treasury Department amended the Iranian Transactions Regulations, 31 C.F.R. Part 560 (the “ITR”) to strengthen the U.S. embargo against Iran by prohibiting U.S. financial institutions from engaging in “U-turn” transactions. (See 73 Fed Reg. 66541, November 10, 2008.) U-turn transactions are U.S. dollar transactions involving Iran that are cleared through a U.S. bank. This amendment is intended to prohibit transfers designed to “dollarize” transactions through the U.S. financial system for the direct or indirect benefit of Iranian banks or other persons in Iran or the Government of Iran.

Prior to this amendment, Section 560.516 of the ITR authorized U.S. depository institutions to process transfers of funds to or from Iran, or for the direct or indirect benefit of persons in Iran or the Government of Iran, if (a) the transaction did not involve the debiting or crediting of an Iranian account (that is, an account of a person located in Iran, or of the Government of Iran maintained on the books of a United States depository institution), (b) the transaction did not involve a person or entity identified by OFAC as a Specially Designated National or Blocked Person; and (c) each of the originating and beneficiary banks of the transaction were third- country banks. For example, an Iranian bank sends funds from its account at a German bank through the German bank’s correspondent in New York to an Italian bank to pay for goods purchased from Italy. As the originating and beneficiary banks are not U.S. banks, this qualifies as a U-turn transaction. Effective November 10, 2008, such transactions are prohibited.

This amendment does not revoke the existing authorization in the ITR for funds transfers by U.S. depository institutions, through intermediary third-country banks, to or from Iran or for the direct or indirect benefit of the Government of Iran or a person in Iran arising from underlying transactions that are (i) authorized by a specific or general license issued pursuant to the ITR (e.g., payments arising from authorized sales of agricultural products, medicine, and medical devices to Iran), (ii) not prohibited by the ITR (e.g., a family remittance not related to a family-owned enterprise), or (iii) exempt from the ITR (e.g., payment for the shipment of a donation of articles to relieve human suffering, the exportation or importation of information and informational materials, or travel-related remittances).

In the announcement issuing the amendment, OFAC noted that this action was taken to “further protect the U.S. financial system from the threat of illicit finance posed by Iran and its banks.” OFAC’s revocation of Iranian U-turn transactions which were previously authorized is just one of the many steps OFAC is taking to increase enforcement and exercise vigilance over the activities of financial institutions in the United States with respect to Iran and other countries and entities subject to U.S. economic embargoes and trade sanctions.

U.S. companies should continually and carefully monitor OFAC actions and regulations to be sure that they are in compliance with applicable law. If you have any questions regarding this amendment or for more information on this amendment or the U.S. trade sanctions and economic embargoes, please contact Aki Bayz, Thomas L. Eldert, Nicholas J. Spiliotes, or Marysol Sanchez Velamoor.